



Governor Jennifer M. Granholm

Community Budget Briefing

The Budget Picture

What is the current size of Michigan's overall budget?

- a) \$ 9 Billion
- b) \$19 Billion
- c) \$39 Billion
- d) \$59 Billion



The Budget Picture

What is the approximate size of Michigan's General Fund Budget?

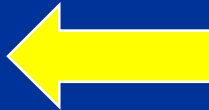
- a) \$1 Billion
- b) \$9 Billion
- c) \$10 Billion
- d) \$20 Billion



The Budget Picture

How big is the General Fund deficit for FY 2004?

- a) \$208 Million
- b) \$501.7 Million
- c) \$1.7 Billion
- d) \$2.6 Billion



The Budget Picture

What is the approximate size of Michigan's School Aid Fund?

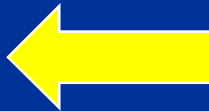
- a) \$800 Million
- b) \$2 Billion
- c) \$8 Billion
- d) \$11 Billion



The Budget Picture

How big is the School Aid Fund deficit for FY 2004?

- a) \$208 Million
- b) \$360 Million
- c) \$570 Million
- d) \$1.2 Billion



FY 2003 – The Budget Picture

**Total Budget
\$38.7 Billion**

Restricted Funds: \$18.5B

General Fund: \$8.9B

School Aid Fund: \$11.3B



Two Funds, Two Problems

➤ General Fund

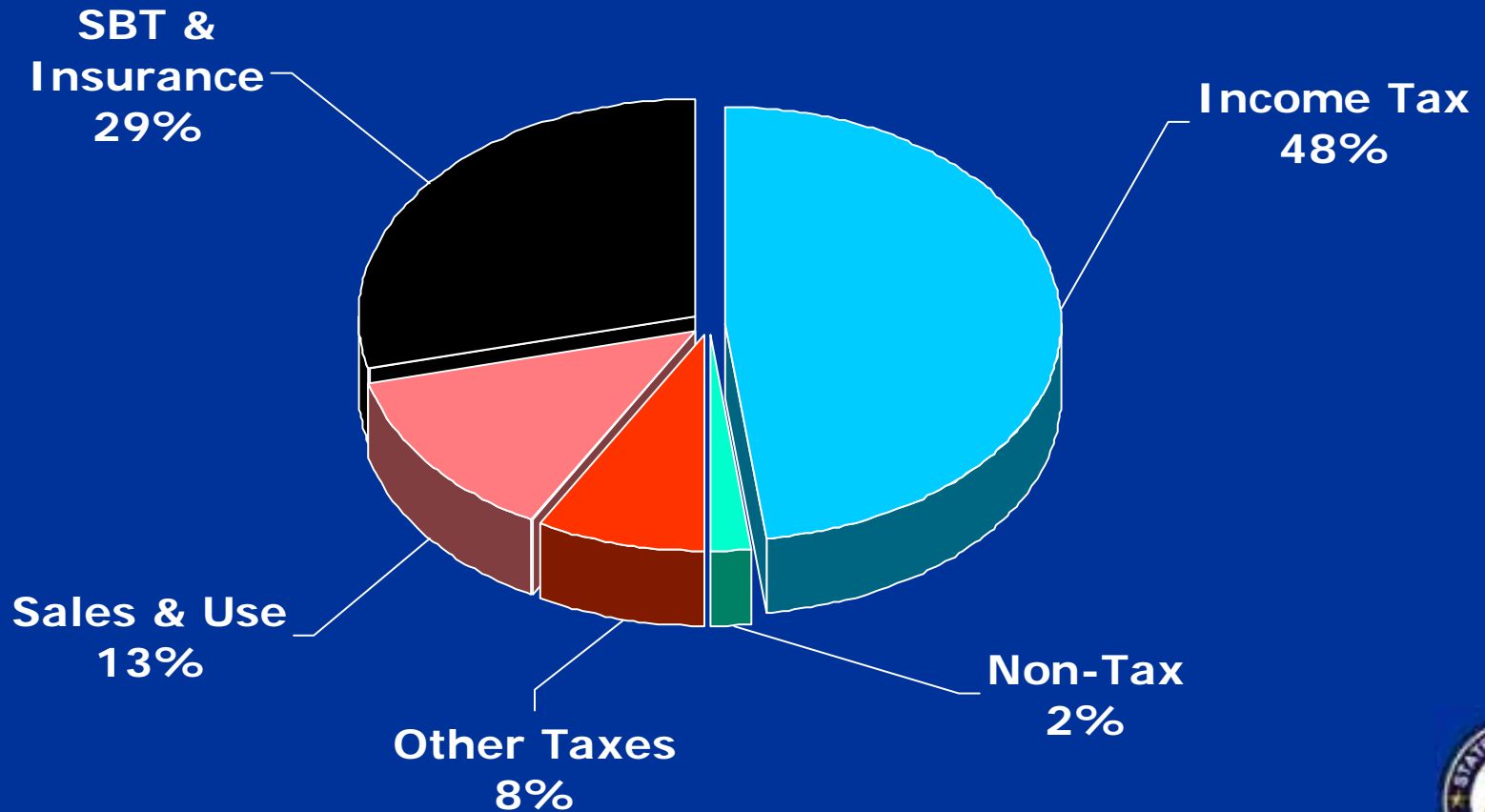
- Short \$158 Million THIS fiscal year
- Short \$1.7 Billion FY 04, Beginning October 1

➤ School Aid Fund

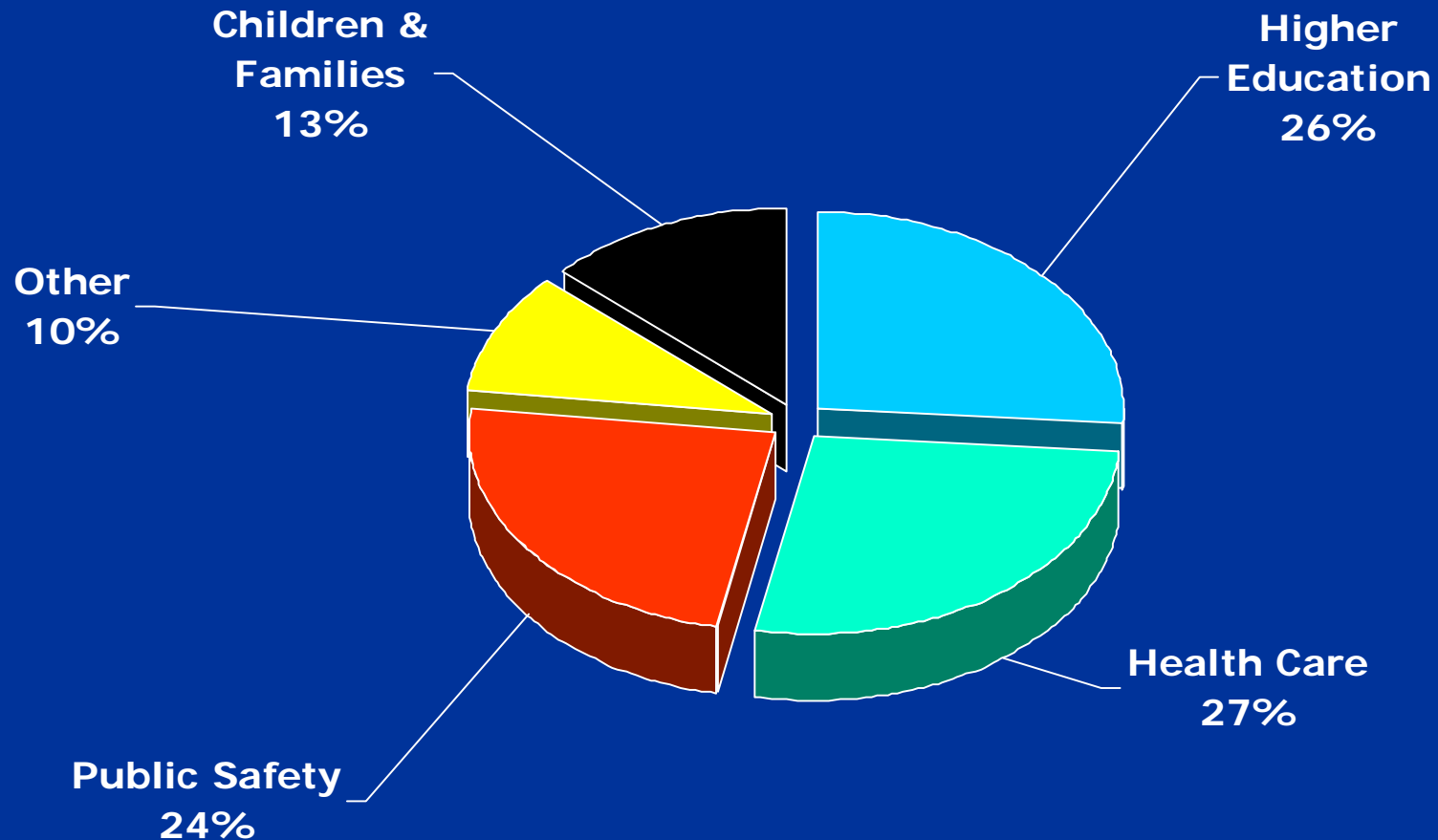
- Short \$127 Million THIS fiscal year
- Short \$360 Million FY 04, Beginning October 1



FY 2003 GF Revenue: \$8.083 Billion



FY 2003 GF Spending: \$8.925 Billion



GF: Why So Short *This* Year?

July: FY '03 Budget Adopted

\$9.2B

**1-Time Fixes:
\$790M**

**Projected
Rev. May 02:
\$8.4 B**

Today: '03 Budget

\$8.9 B

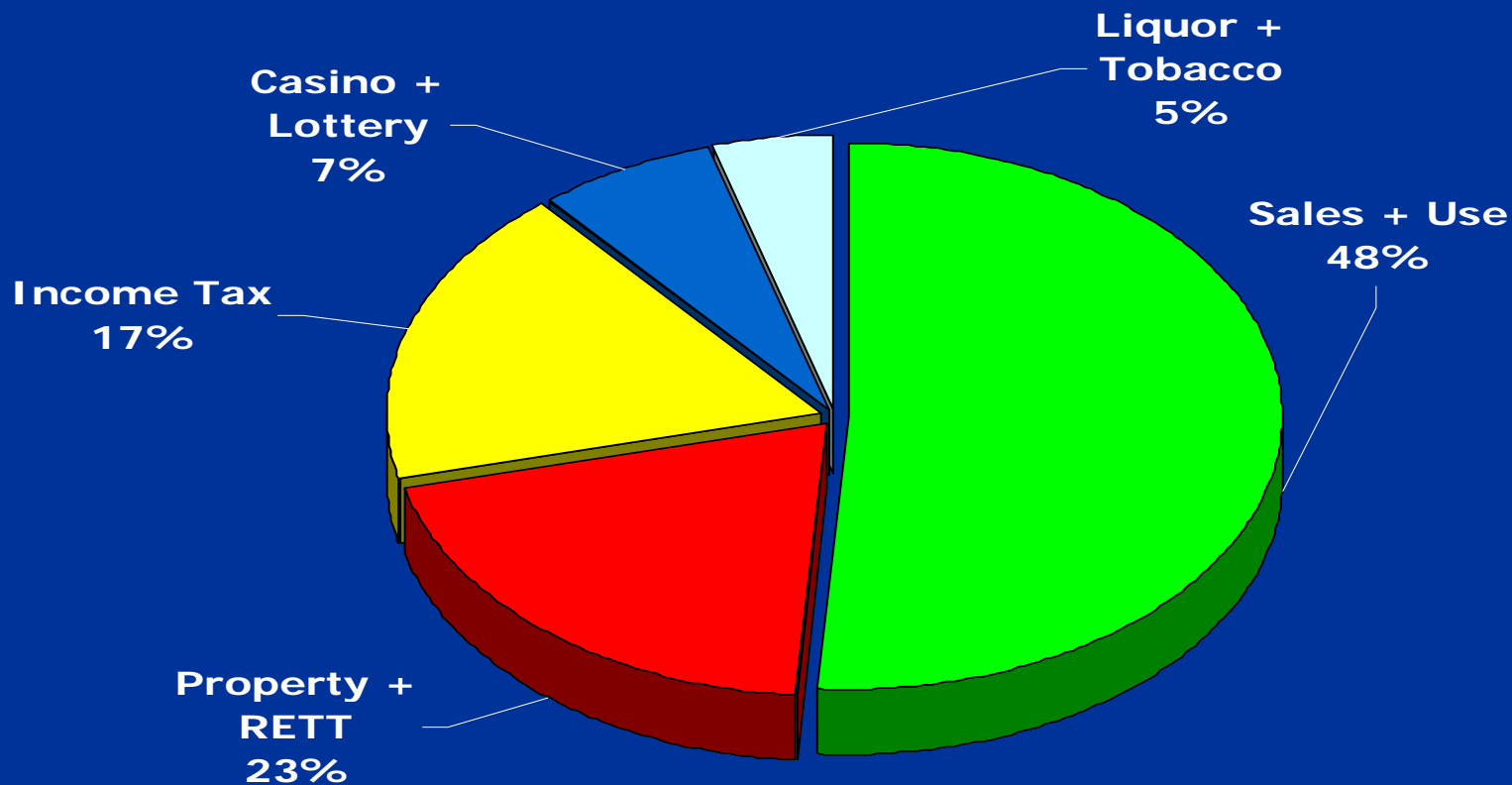
**1-Time Fixes:
\$790M**

**Projected
Rev. Jan '03:
\$8.1 B**

**Budget Gap =
\$158M**



School Revenue: \$10.858 Billion



School Aid: Why So Short *This* Year?

School Aid Budget \$11.2 B

(Includes \$692M in One-Time Fixes)

Nov. 02 – Rev. Estimate	\$10.5 Billion
Jan. 03 – Rev. Estimate	<u>\$10.4 Billion</u>
Today - Budget Shortfall	\$127 Million

School Aid Revenue

Dropped \$100M+ in Two Months
Due to Anemic December Sales



The Big Picture Problem

**Gen. Fund Revenues Have Dropped
More Than 17% in 3 Years**

- **FY 2000 GF Revenues \$9.788B**
- **FY 2003 GF Revenues \$8.084B**



GF Spending Exceeds Revenue

Three Years In a Row

	<u>Spending</u>	<u>Revenue</u>	<u>Spending Gap</u>
FY 2001	\$9,859.2	\$8,989.6	(\$869.9)
FY 2002	\$9,189.2	\$8,425.1	(\$764.1)
FY 2003	\$8,925.4	\$8,083.8	(\$841.6)



The Fix for *This* Year

➤ School Aid Fund

- Proration letter REQUIRED by law
- Cuts school budget by \$127 Million

➤ General Fund

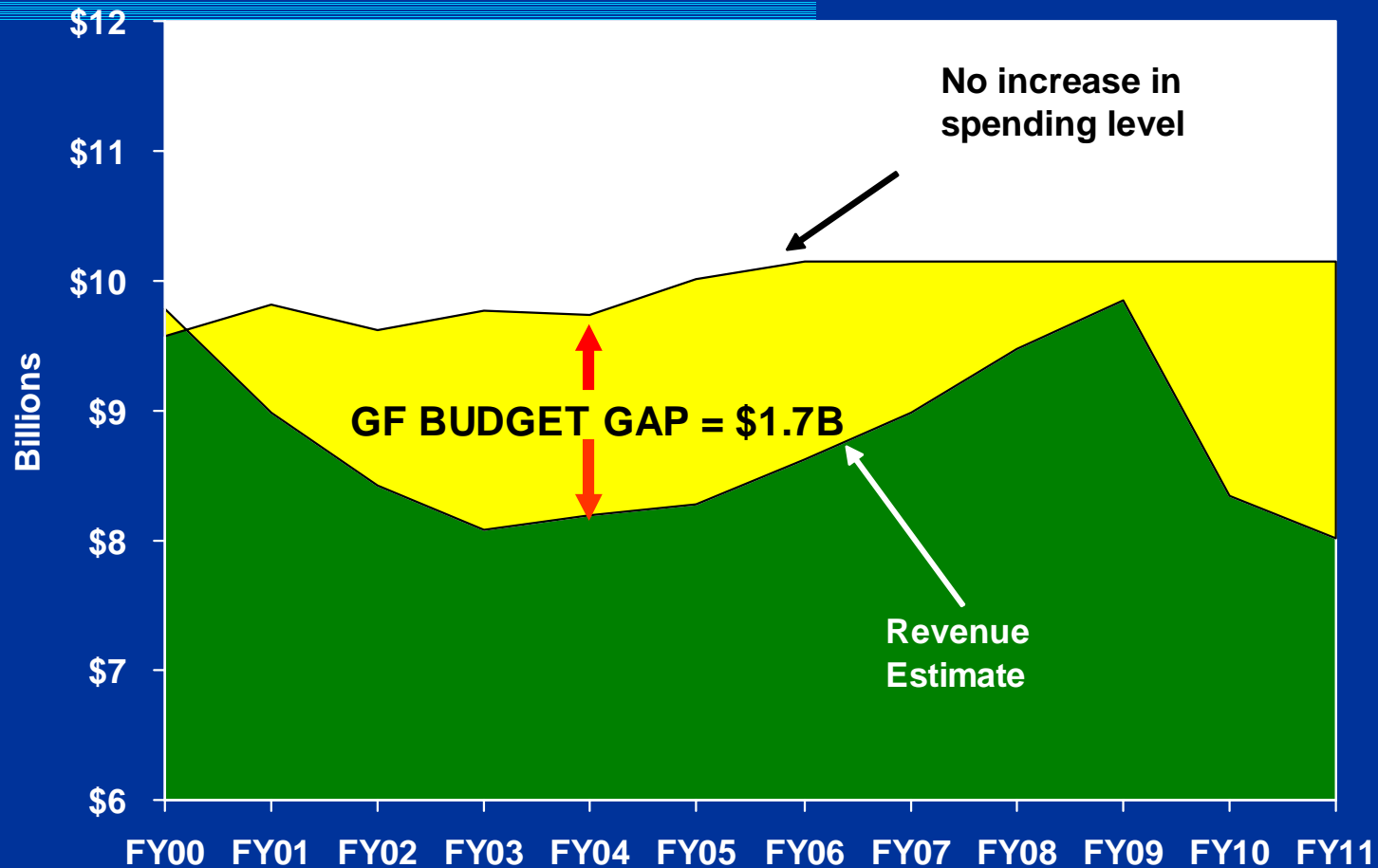
- Feb. 19 - Presented an Executive Order to cut \$158 million from the GF budget this year

➤ Total Cuts THIS Year:

- | | |
|---------------------------|---------------------|
| -- K – 12 Education – 1% | -- Higher Ed – 3.5% |
| -- Revenue Sharing – 3.5% | -- Gen. Govt – 4% |



Must Fix the Chronic Problem



How Big is a \$1.7 Billion Problem?

We could:

- Shut down every prison and still not save enough.
- Cut off all state funding to every college and university and still not save enough.
- Shut down:
 - Every State Park
 - The Legislature
 - The Executive office
 - All Secretary of State offices
 - The Attorney General's office
 - and the entire Michigan State Police . . .

And it STILL wouldn't be enough to close the budget gap.



How Big is a \$1.7 Billion Problem?

Nearly 20% of the services
we provide with
General Fund dollars,
we cannot afford.



How do we Fix the Problem?

➤ First:

Turn over every rock to find savings & waste.



Every Penny Counts...

Immediate Administrative Cuts

- Reduce Vendor Contract Expenditures by at least 7% - potential \$100M savings
- Bring in 1,000+ State Vehicles - \$3M
- Stop Management Bonuses
- Hiring Freeze for Most Unfilled Positions
- Halt Road Project Expansions in BMIII
- Stop per diem & Travel Payments for all Boards and Commissions



Every Penny Counts...

Immediate Administrative Cuts

- Stop Mailing Payroll Statements - \$400,000
- Turn off the Lights - \$325,000
- End Color Copies - \$350,000
- Reduce Cell Phone Use - \$150,000



How do we Fix the Problem?

➤ Second:

Cut spending to build a fiscally-responsible budget for next year.

➤ How?

The easy answer:

20% across the board cuts???



A Better Approach to Fixing the Problem

Build a budget based on the things we value the most....

- Educating our children
- Protecting our families
- Building a foundation for the future



8 Rules for Building a Better Budget

1. Begin with results – make sure they matter to our citizens.
2. Examine the entire budget.
3. Don't use accounting gimmicks or one time money to hide long term problems.
4. Don't put off tough decisions, it only makes the mess bigger.



8 Rules for Building a Better Budget

5. Remember: It's the people's money – they want their money's worth.
6. Don't spend more than you take in.
7. Keep the price of government competitive.
8.



What Do YOU Value Most?

Where Would You Put Your *FIRST* Dollar?

- Hospital Funding & Health Care
- Kids – K-12 Education
- Colleges & Universities
- Economic Development
- Prisons & Police
- Cultural & Arts Funding
- Environmental Stewardship



What Do YOU Value Most?

Where Would You Make Your *FIRST* Cut?

- Hospital Funding & Health Care
- Kids & K-12
- Colleges & Universities
- Economic Development
- Prisons & Police
- Cultural & Arts Funding
- Environmental Stewardship



8 Rules for Building a Better Budget

8. Don't create the budget in the back room.



Next Steps...

- Continued Community Budget Briefings
- Work with Cabinet to Streamline Government
- Build the Budget
- Deliver Budget – March 6, 2003
- Work with Legislature to Build Consensus
- FY 2004 Begins – October 1, 2003



In challenge . . . opportunity

“We cannot wait for the storm to blow over, we must learn to work in the rain.”

- Pete Silas, Former CEO Phillips Petroleum

